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The Commonwealth of Massachusetts

COMPTROLLER AND AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819
BOSTON 02108



JOSEPH DeNUCCI
AUDITOR

(617) 727-6200

NO. 97-0590-3

STATE AUDITOR'S
REPORT ON THE ACTIVITIES
OF THE
BERKSHIRE COUNTY REGIONAL HOUSING AUTHORITY
JULY 1, 1995 TO MARCH 31, 1997

GOVERNMENT DOCUMENTS
COLLECTION

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OFFICIAL AUDIT REPORT

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AUDIT SCOPE, OBJECTIVES, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Berkshire County Regional Housing Authority for the period July 1, 1995 to March 31, 1997. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs and to assess compliance with laws and regulations applicable to each program.

Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits and, accordingly, included such audit tests and procedures as we considered necessary.

To achieve our audit objectives, we reviewed the following:

- o Tenant-selection procedures to verify that tenants were selected in accordance with Department of Housing and Community Development (DHCD) regulations.
- o Vacancy records to determine whether the Authority adhered to DHCD's procedures for preparing and filling vacant housing units.
- o Annual rent-determination procedures to verify that rents were calculated properly and in accordance with DHCD regulations.
- o Accounts receivable procedures to ensure that rent collections were timely and that uncollectible tenants' accounts receivable balances were written off properly.
- o Procedures for making payments for salaries, travel, and fringe benefits to verify compliance with established rules and regulations.
- o Site-inspection procedures and records to verify compliance with DHCD inspection requirements and that selected housing units were in safe and sanitary condition.
- o Property and equipment inventory-control procedures to determine whether the Authority properly protected and maintained its resources in compliance with DHCD requirements.
- o Contract procurement procedures and records to verify compliance with public bidding laws and DHCD requirements for awarding contracts.
- o Cash-management and investment policies and practices to verify that the Authority maximized its interest income and that its deposits were fully insured.



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- o DHCD-approved operating budgets for the fiscal year in comparison with actual expenditures to determine whether line-item and total amounts by housing program were within budgetary limits and whether required fiscal reports were submitted to DHCD in a complete, accurate, and timely manner.
- o Operating reserve accounts to verify that the Authority's reserves fell within DHCD's provisions for maximum and minimum allowable amounts and to verify the level of need for operating subsidies to determine whether the amount earned was consistent with the amount received from DHCD.
- o Development and modernization awards to verify that contracts were awarded properly and that funds were received and disbursed in accordance with the contracts, and to determine the existence of any excess funds.
- o The Authority's progress in addressing the issues noted in our prior audit report (No. 95-0590-2).

Our tests in the above-mentioned areas disclosed no material weaknesses.

Based on our review we concluded that, except as discussed in the Audit Results section, during the 21-month period ended March 31, 1997 the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested. Moreover, although the Authority had adequately addressed two of three prior audit issues, it still needed to repay \$63,000 to its 667-1 and 667-2 Development programs.

AUDIT RESULTS

1. Status of Prior Audit Results

We conducted a follow-up review of the Berkshire County Regional Housing Authority's progress in the addressing issues noted in our prior audit report (No. 95-0590-2) which covered the period July 1, 1993 to June 30, 1994. Our follow-up review indicated that the Authority had satisfactorily addressed the prior audit issues pertaining to internal control weaknesses and excess operating subsidies. However, the issue pertaining to the unauthorized transfer and use of development funds totaling \$63,000 remained unresolved.

a. Internal Control Weaknesses: Our prior audit report noted that the Authority had been unable to conduct business at 10 of the 21 board meetings held between July 1, 1993 and November 30, 1994 because of a lack of a quorum. In addition, we noted instances in which employees' timesheets were either missing or lacking supervisory approval; certain attendance calendars did not contain cumulative balances to document vacation payments; and some employee files did not contain documents required by the Authority's personnel policy, such as letters of employment, performance evaluations, job descriptions and updates, and records of any changes in employment status or wages. Finally, our prior audit report cited two instances in which the Authority entered into contractual agreements with the town of Great Barrington and the town of Sheffield without obtaining complete and signed contracts.

Our follow-up review indicated that the Authority had adequately resolved these internal control weaknesses. Specifically, the board member who had previously been unable to attend board meetings was replaced, and the Authority's board had a quorum at 10 of its last 11 meetings; the payroll/personnel documents reviewed contained all necessary documentation;

and all agreements entered into during the audit period had signed contracts and board approval. Our prior audit report cited two instances in which the Authority entered into contractual agreements with the town of Great Barrington and the town of Sheffield without obtaining complete and signed contracts.

b. Excess Operating Subsidies: Our prior audit report noted that the Authority received excess subsidy amounts totaling \$3,398 from the Department of Housing and Community Development (DHCD) as of June 30, 1994 and that the excess funds had not been returned as required. These funds represented excess operating subsidies received for the Authority's Elderly Housing Program in Sheffield. Our follow-up review determined that the Authority returned the \$3,398 to DHCD on February 13, 1995.

c. Unauthorized Transfer and Use of Development Funds: Our follow-up review of the unauthorized transfer and use of development funds noted in three prior audit reports (No. 95-590-2, No. 93-5005-2, and No. 91-590-1) indicated that the Authority continued to owe two development programs \$63,000. As of March 31, 1997, the Authority owed \$48,000 to the 667-1 Hinsdale development program and \$15,000 was due to the 667-2 Sheffield program.

Our prior audit report (No. 91-590-2) disclosed that the Authority had transferred \$103,000 from three development programs (the Elderly Housing Programs 667-1 and 667-2 and the Family Scattered-Site Program 705-1) to its Unreserved Operations account to pay for expenses unrelated to the specific development programs, contrary to the Contracts for Financial Assistance between the Authority and the Commonwealth. The Authority made these transfers to meet its operating expenses and to help offset cash-flow deficiencies. Also, \$43,000 of the \$103,000 was transferred from Programs

667-1 and 705-1 subsequent to a December 8, 1989 directive from the Secretary of DHCD that instructed the Authority to cease using 667-1 and 705-1 Development funds.

The Authority made repayments in June 1991 of \$30,000 and \$10,000 for Development Programs 667-1 and 705-1, respectively, thereby reducing the amount owed to \$63,000. DHCD established and subsequently waived various deadlines for the repayment of the funds due. The Authority has not made any additional repayments since June 1991 because of lack of funds. The Authority has managed to operate at a small surplus in recent years by cutting costs through staff reductions.

In an effort to improve and stabilize existing services, as well as to develop potential programming opportunities, the Authority retained the services of a housing development consultant, who produced a report in June 1995 that outlined several potential development and programmatic concepts. The Authority continues to pursue the report's recommendations, in addition to other potential program opportunities, and hopes to obtain additional funding sources in fiscal year 1998.

Recommendation: The Authority should continue its efforts to secure additional funding and program opportunities. DHCD should monitor the Authority's efforts in order to ensure the eventual repayment of \$63,000 to the 667-1 and 667-2 Development programs.

Auditee's Response:

BCRHA will continue to work closely with DHCD in an effort to reduce and ultimately extinguish the debt created by the transfer and use of development funds in 1990. Over the last several years, BCRHA has achieved a desirable level of stability. This stability has been achieved through the effective management of resources and the continued development of a diverse programming and funding base. Although BCRHA has developed and administers a number of successful programs, it would be inappropriate to allocate funding from any of these sources, to the 1990 debt. Most of these programs are break even programs and are not funded to generate income. It is therefore important that BCRHA and DHCD work cooperatively to develop realistic

solutions to resolve this issue. One such option may be an agreement by DHCD to write off the debt.

It is also important to put the aforementioned debt in context to the current overall effective administration of BCRHA. The debt was created over seven years ago under the leadership of a previous Executive Director and Chairperson. The debt has not grown since its discovery in 1990. Under the leadership of the current Board and Executive Director all programs are now run in an efficient and appropriate manner. On an annual basis, these important programs serve hundreds of needy Berkshire County households.

2. Development Programs Not Closed Out

As of March 31, 1997, the Authority had nine development programs that needed to be closed out by DHCD. Four of these programs were completed, while five programs were terminated by DHCD because of fiscal constraints. The nine programs are as follows:

<u>Programs Completed</u>	<u>Location</u>	<u>Date Completed</u>	<u>Costs Incurred</u>
667-2	Sheffield	May 1991	\$1,504,574
689-2	Sheffield	May 1991	141,402
689-5	Great Barrington	September 1995	551,339
705-2	Lee	December 1994	882,264
			<u>\$3,079,579</u>

<u>Programs Terminated</u>	<u>Location</u>	<u>Date Terminated</u>	
667-1	Hinsdale	December 1989	\$ 38,279
689-3	Pittsfield	December 1992	3,386
689-4	Adams	December 1992	94,703
705-3	Egremont	December 1992	8,382
705-4	Becket	December 1991	101,581
			<u>\$ 246,331</u>
Total			<u>\$3,325,910</u>

The Authority's Executive Director stated that the 667-2 and 689-2 Development Programs in Sheffield have septic problems that need to be addressed before those programs can be closed out. Until such time as these nine development programs are closed, the Authority continues to unnecessarily maintain financial records for the programs and incur unnecessary administrative costs, such as accounting fees.

Recommendation: DHCD should provide the Authority with close-out instructions relative to these nine development programs. The four completed programs should have the development costs transferred to the financial records of those housing Authorities currently managing the programs. Since it is unlikely that the five terminated programs will be developed, any remaining assets (e.g., 12 acres of land in Becket acquired in October 1988 for \$91,500) acquired during the initial development phase should be disposed of, with the residual receipts being returned to the Commonwealth.

Auditee's Response:

BCHRA fully supports the recommendation to close-out any dormant development programs. BCRHA will request that DHCD provide the necessary assistance to move forward on this recommendation.

